MEMBERS COOPERATIVE CREDIT UNION
Real life. Real benefits.™

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National Credit Union Administration
Mary Rupp, Secretary of the Board
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

On behalf of Members Cooperative Credit Union, thank you for the opportunity to comment on the Advance Notice of Proposed Rulemaking (ANPR) on National Credit Union Administration (NCUA) regulation, Part 704 regarding Corporate Credit Unions. Members Cooperative Credit Union is a 33,000 member strong federally insured State chartered community credit union that has served various communities in Northeastern Minnesota since 1936. The current economic environment and associated market disruption is unprecedented, and therefore, any action taken by NCUA should be carefully considered. We urge you to use extreme caution as you consider implementing any changes. I think avoiding unintended consequences for credit unions and their members should be of paramount concern throughout this process. However, there is and has been a need to make changes to the corporate credit union system for some time now. Any changes to the system must both balance the immediate need to stabilize the industry with the long term goal of assisting natural person credit unions deal with falling margin spreads and increased competition.

Two-Tiered Corporate System

In responding to this ANPR, it is important to reflect on the root causes of our current difficulties. These difficulties were caused by a combination of the significant deterioration in the credit and securities markets, the loss of confidence in the financial markets, and lack of appropriate oversight. The elimination of the second tier corporate would not have solved our current economic problems. That said the two tier system no longer appears necessary. The corporate credit union system should consist of a single tier with the elimination of the wholesale corporate credit union level. In addition, that single level of corporate credit unions should consist of between four and eight corporate credit unions. Much of that consolidation likely would occur over the next few years, but NCUA must be a leader in encouraging a more rapid consolidation. Consolidation, of the corporate credit union system must occur to decrease the overall overhead of the industry and to provide more efficient operations so as to allow the corporate credit unions to rebuild capital.

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Expanded Investment Authority

In regard to corporate credit union investment strategies, those that want to assume more risk in their investment strategies should be subject to increased regulatory scrutiny, and be required to build and maintain the appropriate levels of capital. Corporate investment services should continue to be offered with the needs of the credit union community in mind. Corporate credit unions must be permitted to take more investment risk, but their capital structure should be such that it offsets the greater risk. In addition, corporate credit unions should have to earn the right to invest in riskier and more complex securities. By having proven systems for handling risk and by having experienced and knowledgeable personnel, the corporate credit union should be permitted to gradually to have their investment authority expanded.

Many natural person credit unions lack the investment expertise needed to make investment decisions beyond simple investment vehicles. Corporate credit unions play a vital role in this respect and should be able to continue to serve investment needs of the credit union community. However, the need for greater oversight has become apparent. Corporate credit unions have concentrations, in some cases, of more than 65% in one asset class. With diversification being a fundamental tenant of sound investing, allowing this level of concentration is unacceptable and shows the need for greater investment expertise and oversight in the industry. It appears that the corporate credit union staff and management and the NCUA examiners auditing them lack the expertise, systems, processes and controls needed to utilize these expanded privileges effectively and soundly. Therefore, NCUA should require the corporate credit unions maintain sufficient expertise to deal with complex investment products and insure that examiners are properly trained and experienced to not again let concentration levels reach these ranges in the future.

Corporate Capital

You've also asked about core capital and what level should be considered appropriate. Core capital should be based upon the level of risk exposure the corporate assumes. Membership capital should be a core structural component for corporate credit unions. This would increase a corporate credit unions' ability to raise capital beyond just undivided earnings, thereby strengthening its ability to handle market stresses. In addition, natural person credit unions should be required to maintain a minimum membership share amount in order to receive services from a corporate credit union.

Our concern has been, and continues to be, how individual corporate credit unions use contributed capital to improve services, invest in technology and reduce costs for its members. Natural person credit unions are subject to intense competition in the marketplace. Corporate credit unions can be a critical partner with natural person credit unions by providing competitive, cost effective services. If this partnership becomes one-sided, where the corporate is no longer able to provide necessary and cost effective services to its members, or these services are better and more affordably provided by

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other third parties, there should be a mechanism for the natural person credit union to withdraw its contributed capital within a reasonable time frame and seek another service provider.

Corporate Governance
Should corporate credit union board members have been able to identify and limit the concentration of subprime and Alt-A securities on the books of corporate credit unions? Should they have been able to predict, or at least question management's ability to predict the evaporation of the market for these types of securities? If the answer to those questions is yes, and the current corporate credit union boards failed in this capacity, then NCUA should mandate greater experience levels, enhanced training, and specialized skills, of corporate credit union directors. Board members qualification then should be more scrutinized. And, outside directors then should be permitted. However, I suspect that even more experienced or paid outside board members would not have been able to predict the unprecedented occurrences in the market no matter what their knowledge or experience level is. Therefore, I do not see an immediate need to modify the structure of corporate credit union boards. But, I do believe strongly that individual corporate credit union should place requirements on their board members to be actively involved, to understand their fiduciary duties as board members, and to attend training and educational sessions to fully appreciate their duties and responsibilities as a board member. Individual credit unions with capital in the corporate credit union then have a responsibility to question their elected directors and ensure that they are qualified and committed to handle the responsibilities of being a director. I think it would be acceptable to compensate the credit union that employs the credit union executive that is serving on the corporate credit union board. This would pay for the time the credit union executive must spend not only attending and preparing for board meetings, but also for the time in educating themselves on being effective board members and on obtaining a greater understanding of the corporate credit union.

We want to reiterate that it is critical that the NCUA act cautiously and deliberately while considering changes to the corporate credit union system. The NCUA must do all in its power to maintain safety and soundness while allowing an operating environment to develop that promotes growth, prosperity and competitiveness across the entire industry.

Sincerely,

Robbie Thompson
Vice President General Counsel